

**SUMMARY OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS COMMITTEE**

**HELD ON
Thursday, July 24, 2008
10:30 a.m., Arizona Time**

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in regular session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. David Byers, Chair, called the meeting to order at 10:30 a.m.

This meeting was teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair
 Mr. Steven Zeman, Vice-Chair
 Dr. Keith Meredith (Via Teleconference)
 Mr. Michael Townsend (Via Teleconference)

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the Minutes of the June 26, 2008 OC Meeting

Mr. Steven Zeman noted the Future Agenda Items section of the June 26, 2008 meeting should have included a notation that External Affairs Division was to report to the OC on the development of a self-audit procedure for ASRS employers and its future implementation.

Motion: Mr. Steven Zeman moved the minutes of the April 24, 2008, OC meeting be adopted as amended. Dr. Keith Meredith seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding the Proposed ASRS Budget Request for Fiscal Years (FY) 2010 and 2011

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, gave a brief overview of the proposed ASRS budget request for FY 2010 and 2011, giving background and history of how the budget request was developed and showing the appropriated budget/cost comparisons for FY 2001 through FY 2011. He said unit costs are anticipated to decrease over the next few years, citing the agency has a cost effective approach to budgeting and planned expenditures.

Mr. Guarino then introduced Ms. Martha Rozen, Chief of Administrative Services, and Mr. Russ Levine, Budget Manager. Ms. Rozen addressed the Committee with a general review of the budget for FY 2010 and 2011. Ms. Rozen then briefly reviewed each section of the budget beginning with the background and budget request for Long Term Disability (LTD) Administration.

Motion: Mr. Steven Zeman moved the OC recommend to the Board the approval of the Long Term Disability (LTD) administration budget request for FY 2010 and 2011 equal to the appropriated amount of FY 2009 of \$2.8 million. Dr. Keith Meredith seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

The next section of the budget that Ms. Rozen addressed was the Special Line Item (SLI) appropriations conversion to the operating budget. She stated the figures for the budget for this particular item were estimated because the final amounts might differ due to outstanding legislation that has not been implemented and may affect the final numbers (known as “back of bill” adjustments).

Motion: Mr. Steven Zeman moved the OC recommend to the Board the approval of the two special line item appropriations totaling an estimated \$2,908,500 for conversion to the Operating Budget for Fiscal Years 2010 and 2011, plus any back of bill adjustments. Dr. Keith Meredith seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

During discussion of the motion prior to the vote, Dr. Meredith asked if there was any risk the entire IT plan would not be completed by September. Mr. Guarino stated the risk was very small.

Ms. Rozen then addressed the Committee regarding the budget request for the Project Investment Justification (PIJ) noting the PIJ budget request was for continuation with enhancements to the ASRS network environment.

Motion: Mr. Steven Zeman moved the OC recommend to the Board the approval of the PIJ request of up to \$950,00 in FY 10 and up to \$41,800 for FY 11, with FY 10 being year three of the three-year PIJ and FY 11 for ongoing software and maintenance agreements. Dr. Meredith seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

The next budget item for consideration dealt with budgetary funding for Full Time Equivalents (FTEs). Ms. Rozen noted the budget request was for staff positions in Information Services, Financial Services, Investment Management, Administrative Services, and Member Services. A discussion ensued regarding use of the appropriated funds for outside contract services if the state hiring freeze is still in effect.

Motion: Mr. Steven Zeman moved the OC recommend to the Board the approval of an increase of \$779,900 for FY 10 for six FTEs or outside contract services and an additional \$293,200 for FY 11 for 3.5 FTEs or outside contract services for a total of 9.5 FTEs to be included in the agency budget request for FY 10/11 as follows: 3 FTEs for Information Services Division, 2 FTEs for Financial Services Division, 2 FTEs for Investment Management Division, 1 FTE for Administrative Services Division, and 1.5 FTEs for Member Services Division. Dr. Keith Meredith seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

Ms. Rozen then discussed the budget costs associated with attendance at advisory committee meetings, education conferences and the performance of due diligence. She said the agency was requesting an increase \$81,130 in both FY 10 and FY 11 to cover travel-related expenses. There was a brief discussion regarding the cost of travel with regards to the current state budget environment.

Motion: Mr. Steven Zeman moved the OC recommend to the Board the approval of an increase of \$81,130 with flexibility for staff to review in both FY 10 and FY 11 for travel related expenses association with the attendance at advisory committee meetings, education conferences and the performance of due diligence. Mr. Michael Townsend seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

The final budget item addressed the request for an increase in the amount for professional and outside services, other operating expenses and equipment requests. Ms. Rozen said this was for items such as increased postage costs, adding an additional internet line to bolster use of the ASRS website, performance studies and other items.

Motion: Mr. Steven Zeman moved the OC recommend to the Board the approval of an increase of \$178,250 in FY 10 and an additional \$161,800 in FY 11 for the professional and outside services, other operating expenses and equipment requests. Dr. Keith Meredith seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the ASRS Biennial Audit Plan

Mr. Bernard Glick, Chief Auditor gave the Committee an update regarding the Biennial Audit Plan. He stated the original plan was to complete 8-10 employer audits, but Internal Audit (IA) was able to complete 13 employer audits and start two additional audits. He also said that all agency audits had been completed as planned except for the audits for contract management controls and the credited service audit. The first was abandoned due to the vacancy of one of the positions within IA. The second audit was 95% completed but the auditor was pulled off the audit to assist in automating the Compliance Officer position worksheets.

Mr. Glick then discussed the audit hours available for the remainder of the audit plan. He said due to a vacancy in the IA, he needed to trim the number of hours available for auditing by 1,830 and decided to remove several audits from consideration until a future time.

He also noted that IA and External Affairs had prepared a pilot program of self-audits for several school districts. He said the target date for reporting from the school districts was approximately six months from now.

Motion: Mr. Steven Zeman moved to accept the revision of the Audit Plan for Fiscal Years 2008 and 2009. The motion was seconded by Mr. Michael Townsend.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

5. Request for Future Agenda Items

None.

6. Call to the Public

No members of the public addressed the Committee.

7. Adjournment of the OC

Mr. David Byers adjourned the meeting at 11:37 a.m.

Respectfully Submitted by,

Zachary Kucera
Committee Secretary

Date

Anthony Guarino
Deputy Director and Chief Operations Officer

Date